

## Claims History and Your Insurance Premiums: What You Need to Know

Pro-Demnity is making an important update to our pricing model for annual practice professional liability insurance. It aims to reward positive risk-awareness habits within the architectural community.

### CLAIMS EXPERIENCE WILL BE REFLECTED IN PREMIUMS

This is a notable response to the majority of architectural firms who have been claims-free, or who have had a small number of claims over the firm's lifetime. Upholding **fairness** and **integrity** remain central to the reliability of our pricing model, and support policyholders' calls for premiums that are priced in accordance with their claims history. **Premiums will reflect discounts or surcharges, based on a rolling 10-year period of claims.**

### THE EXPERIENCE RATING FACTOR (ERF)

**Effective April 1, 2025, upon renewal**, the premium calculation formula for annual practice professional liability insurance, takes into consideration the architectural practice's history of claims severity - *not frequency* - with the inclusion of an Experience Rating Factor (ERF) as a new input to the existing formula.

### ERF DETERMINES IF A FIRM RECEIVES A DISCOUNT OR A SURCHARGE ON PREMIUM

- ERF is based upon the individual policyholder's ten-year loss ratio compared with Pro-Demnity's ten-year loss ratio. Depending on the relative loss ratio, the Base Premium will be adjusted between -3% (discount) to up to +7% (surcharge).

- ERF is **reflective of claim costs (paid expenses, or paid damages, or both) based on severity and NOT the number of claims reported or actioned**. Any paid claims less than \$5,000 are excluded when calculating the architectural firm's loss ratio.
- Annually, the rolling ten-year loss ratio period will not consider the two newest years' loss ratios. For example, in the upcoming renewal year (effective upon renewal as of April 1, 2025), the ten-year timeframe that will be used is 2013-2022 with the claims incurred losses as of December 31, 2024, for that period. This is because the first two years of a new claim can be unpredictable, with natural and significant fluctuations in reserves. From a business planning perspective, this provides architectural practices with advance time (up to 2 years from the first notice of loss) to plan and prepare for potential future surcharges in their premiums, of up to 7%.

## **EXPERIENCE RATING FACTOR IS BEING INTEGRATED INTO THE EXISTING PREMIUM CALCULATION FORMULA**

Premium is based upon five factors:

- the most recent 3-year average reported fees;
- Coverage tier based on fees. Remember that fees over \$499,999 and/or over \$1M are automatically priced in accordance with the higher mandatory claim, project and aggregate limits as per the *Architects' Act*;

- the same relative adjustments for deductibles, limits, etc., that will continue to apply;
- the annual rate, which is applied equitably to all architectural practices and varies annually from 1% to 5%. From April 1, 2024 through to March 31, 2025, the applicable rate increase is 3%. The planned rate increase from April 1, 2025 through to March 31, 2026 is 4%; and
- The new Experience Rating Factor, effective upon renewal, starting April 1, 2025

## **THE CLAIMS EXPENSE CONTRIBUTION (CEC)**

Policyholders who are currently subject to the Claims Expense Contribution (CEC), will remain in this program for the foreseeable future. The CEC is a deductible that was introduced in late 2019, as a means of recovering claims costs from a small handful of firms whose loss ratios significantly exceeded their premiums due to frequent and severe claims. These firms are expected to pay their CEC invoices when they are issued. For firms who have paid a CEC, their ERF will be adjusted accordingly within the premium calculation to bring them into an equitable standing.

Starting April 1, 2025, the CEC will be discontinued for any new claims, as the Experience Rating Factor (ERF) within the Premium Calculation Model will ensure that premiums are always higher for those firms with severe claims.

## **REPORTING CLAIMS**

While claims cannot be altogether avoided – and there is plenty that can be done by an architectural practice to mitigate and manage risks – we continue to remind policyholders of their

obligation to notify Pro-Demnity of potential claims so that we may act immediately to defend and protect your firm from any allegations of error, omission or negligence. Our early intervention is effective in minimizing the overall costs of claims and provides our claims team with greater advocacy opportunities to protect and defend your firm.

## EXPERIENCE FACTOR RATING IS OUTLINED IN YOUR RENEWAL DOCUMENTATION

With your renewal, on or after April 1, 2025, an Experience Rating Factor Statement for your firm will be included. The ERF will be integrated into and reflected within your invoice total.

## COMMITMENT TO MANDATE

Pro-Demnity is committed to providing **high-quality professional liability insurance solutions** at the best possible premium for architects. We understand architectural risk, and premiums reflect the realities and potential risks of running and maintaining an architectural practice.

- **Financial Stability:** To fulfil our mandate to the profession, and the public, we must retain sufficient capital as per our regulator, the Financial Services Regulatory Authority. Capital is generated through premiums, investments, and cost/expense containment. Ensuring our viability and sustainability today, and into the future, is paramount for the profession. A useful read is the [2025 Annual Update: Protecting Architects is Our Policy](#).
- **Stable Rate Increases:** Regardless of claims experience, an annual rate increase is equitably applied to all policyholders. Practices are encouraged to budget annually for rate increases and plan their forecasting around a 5% rate increase every year, regardless of whether a discount or a surcharge will apply in any given renewal period.

## COMPREHENSIVE COVERAGE

In addition to reflecting architectural practice risks, your premium also includes valuable benefits and access to helpful resources to help you understand risks and minimize claims exposures. You are encouraged to make the most of all the resources available to you, whether you have experienced a claim or not.

Finally, we remain committed to ensuring that our policies continue to reflect the principles of equitability and integrity, fostering a fair and transparent environment for all our valued clients.

We are here to support you as your ally and ensure you have the best possible coverage.

## ADDITIONAL INFORMATION

- [Frequently Asked Questions](#)
- [Simple illustration of the premium calculation that includes the Experience Rating Factor](#)

### ***Disclaimer:***

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